

August 3, 1956

MEMORANDUM

FROM: Chester Bowles

SUBJECT: The Urgent Need for a New Approach to Foreign Aid

Confusion and doubts about the purposes, operation and value of our Foreign Assistance Program are widespread. In the recent session of Congress such doubts were vigorously expressed from both sides of the aisle.

The reasons for this uncertainty are obvious. Foreign economic assistance is a new and complex subject, the full implications of which have never been thought through by our government, much less explained to the American people. Each year it has been presented to Congress as an isolated, expedient, stop-gap measure; as a cheap and easy means of buying allies and friends; as a relatively painless method for stopping Communist infiltration. The confusion has been compounded by its inclusion, presumably to make it more palatable, in legislation which is predominantly military.

Many reasons have been advanced to explain the steady lessening of our political and economic influence in the underdeveloped and largely uncommitted areas of the world during the last few years. One of the most important of these, in my opinion, is our stubborn failure to come to grips with the mounting crisis in global economics which is developing under the pressure of the new Soviet tactics. (6)

The purpose of this memorandum is to offer briefly my analysis of the challenge, to record some firsthand observations on the inadequacy of our present approach, and to suggest the role that an enlightened foreign aid program must play if a more integrated and stable world society is to emerge.

I approach this subject with considerable humility, conscious of its vast dimensions which defy brief analyses and of the legitimate grounds for disagreement in any discussion of economic assistance.

The Developing Challenge

The new approach toward the underdeveloped, uncommitted world of Asia and Africa on which Khrushchev and his associates embarked in 1954 is a logical outgrowth of the grand strategy of world revolution laid down by Lenin more than thirty years ago. Indeed, it was foreshadowed even before Stalin's death at the Nineteenth Communist Party Congress in October, 1952.

Lenin believed that democratic capitalism was completely tied to the exploitation of colonies and dependent nations in Asia and Africa. The ultimate victory of Communism, he said, would come through a revolutionary alliance with these "exploited" peoples.

On December 29, 1955, before the Supreme Soviet of the U.S.S.R., Khrushchev focused the concepts of Lenin on present-day Asia and Africa:

"The time when the colonialists could lord it over Asian and African peoples is receding into the past. Yet the colonialists...do not want to give

up voluntarily the system which gives them an opportunity to rob whole nations...

"The people of these independent countries are rising ever more resolutely against the old regimes. We sympathize with this struggle and wish success to the peoples who are waging it."

Since Stalin's death the new long-term, two-pronged global strategy of Soviet policy has been gradually taking shape:

First, the development of superior military power based on the most modern technology, which may be used gradually to cower our friends, to break up our alliances, to impress the neutrals with Soviet omnipotence, and, in the event of war, to obliterate our capacity to retaliate.

Second, the creation of expanding opportunities for the industrial production of Germany and Japan within the Communist orbit; the development and extension of Soviet economic and political associations with the "exploited" peoples of South Asia, Southeast Asia, and the oil-rich Middle East; the offer to Asia, Africa, and South America of an opportunity for rapid economic development within an association guided from Moscow.

Once a favorable start has been made in creating these conditions, we may assume that the emphasis will switch to political cooperation and, ultimately, political association. If these tactics are successful, America may eventually awake to find that she has been maneuvered into military, political, and economic isolation from the resources and people upon which her influence, prosperity and security depend.

One aspect of this politico-economic challenge involves our increasing dependence on imported raw materials. During

the past twenty-five years the United States industrial machine has consumed more raw materials than in all of its previous existence.

Half of our industrial raw material requirements are already met from abroad. By 1970 our present consumption will have doubled, our own resources will have further diminished, and we will be competing with other nations now in the process of rapid industrial growth.

The suggestion that the time will soon come when the Atlantic nations may no longer take what they need of the natural resources of Asia and Africa on substantially their own terms will be dismissed as preposterous by Westerners who have not yet adjusted their views to the rapidly shifting dimensions of power. From the fifteenth century on, Britain, Holland, France, Portugal, Spain, and later the United States singly or in combination maintained a tight grip on most of the world's primary wealth by their control of the seas and their monopoly of markets.

Many American and Western European policy-makers still seem stubbornly to take this state of affairs for granted; they accept it as a part of the unalterable pattern of life, quite beyond the reach of earthly forces. Yet such traditional political, economic, and technological concepts are being turned upside-down, and already this assumption contains little validity.

In a decade London has lost the power to decide when, on what terms, and for whose benefit the natural wealth of India, Pakistan, Burma, or Ceylon will be used.

The Dutch in The Hague and the French in Paris no longer control the resources of Indonesia and Indochina.

The Middle East, which contains 80 per cent of the oil reserves of the non-Communist world, is belligerently throwing off the last vestiges of Western political domination.

Thus the ability of the heavily industrialized Atlantic powers to command the resources of Asia, the Middle East, and even South America, is now largely determined, not by arbitrary political control, but by new concepts of mutual economic self-interest. It is only a question of time before this will also be true in Africa. As the grip of the colonial powers weakens, the disposal of Africa's vast wealth will be increasingly subject to the decisions of Africans.

In an era of peace and goodwill we might welcome this development with supreme confidence, however much it disturbed the habits and complacency of many old Asia and Africa hands. As colonial exploitation draws to a close, we could expect to see worldwide emphasis on improved living standards which would create new expanding markets for our own production.

Our traditional ties with these underdeveloped continents have been close. Although the Atlantic nations have often been indifferent to the aims and sensibilities of Asian and African peoples, many common interests have developed and become deeply rooted. Most present-day Asian and African leaders attended European and American universities, and their philosophy of government tends to be grounded in democratic concepts. The English language offers a ready means of communication.

The struggle of the American people, first for self-government and then to create a free, expanding society under law, has provided the inspiration for every successful non-Communist revolution between the Philippines and the Gold Coast. The advanced industrial development and ample capital of the Western powers have put us in a position easily to supply the equipment and technology which the underdeveloped nations need for their rapid growth.

Thus in 1946, when the Western powers started to liquidate their colonial possessions, there was every reason to expect the growth of a mutually profitable and enduring economic and political association between the Atlantic peoples and the peoples of Asia, Africa and South America. Today, however, we must face the harsh reality that the economic association and political cooperation of the non-Communist nations of East and West can no longer be taken for granted. There are two major reasons for this:

First, American policy-makers have been slow to understand the forces which are at work in Asia and Africa and to adapt our policies to new conditions. Although an enduring partnership between the new underdeveloped nations and the Atlantic powers can only emerge through the creation of a common basis of political, economic and ideological adjustment and understanding, our policies in Asia and Africa have largely minimized such considerations.

Differences growing out of extremes of wealth, color prejudices and deeply rooted emotional reactions to the former

colonial relationship were, of course, inevitable. Now superimposed on these differences are sharply opposed interpretations of the Cold War struggle.

The NATO powers, which until recently have assumed the ultimate likelihood of war, have focused their energies and much of their available investment capital on purely military steps to block Soviet expansion; while most of the new nations, recently emerged from colonialism, and largely concerned with pressing problems of poverty, disease and internal development, have maintained that international Communism is less of a danger to their interests than the global military maneuvers of those who seek to oppose it.

Second, the Soviet Union, more keenly awake to the new forces which are shaping the underdeveloped and still largely uncommitted nations, and with its own industrial capacity rapidly expanding, is now skillfully opening the door to alternative economic associations. Moscow's leaders confidently assume that such associations, against an impressive backdrop of Soviet military power, will ultimately ripen into political agreements which will shift the world balance of power decisively in their direction.

These two developments underscore a situation which ranks, I believe, with the creation of nuclear weapons as the most profound change of our era.

Before World War II, the Atlantic nations with their powerful navies, their competent, tough-minded colonial administrators, and their relatively small forces of

European-led "native" troops were able to assert their economic, political, and military domination over two-thirds of the world. Between Manila and Casablanca, in the short space of ten years, this era has been abruptly ended, and time is running out in the rest of colonial Africa.

The central question now seems clear: can we in America develop a new perspective on our relations with the world that will enable us to use our great natural advantages to forge the essential bonds of common self-interest with the majority of mankind that is neither Communist nor Western before time runs out? Our answer, I am convinced, will determine the shape and character of tomorrow's world. Today most thoughtful observers agree that the outcome is in grave doubt.

The Economic Dilemma of the Uncommitted Nations

At present 1.6 billion people, constituting two-thirds of the world's population, live outside the Moscow-Peking orbit. Within this non-Communist area vast differences in wealth and economic advantage create many conflicts and pressures.

Three-fourths of the area's wealth is now controlled by nations with only one-eighth of the people, and this gap is steadily increasing. Many economists assert that the average per capita real income in Asia and Africa is lower today than before World War I.

Most of the new leaders of non-Communist Asia and Africa are Western educated and largely committed to democratic

objectives and, in varying degrees, to democratic methods. But they are also subject to unprecedented internal pressures generated by low living standards made even more explosive by a new public understanding of the potentialities of modern technology.

This poses for them a critical dilemma.

Any nation, democratic or totalitarian, which seeks rapidly to expand its economy must consume considerably less than it produces. Only by keeping consumption of consumer goods and services to a minimum can the productive capacity be made available to build the railways, steel mills, port facilities and power plants on which a modern industrial society is based.

This economic process, particularly in its early stages, has always created heavy internal strains and in most instances has demanded harsh sacrifices from a majority of the people. The nineteenth century Industrial Revolution, which laid the groundwork for the present soaring production levels of the capitalist West, was characterized by high profits for the few (out of which came most of the investment capital with which to build additional plants) and low wages, slums and grinding poverty for the many. In America the strains of industrial growth were eased somewhat by the availability of free land in the West and a large influx of capital from Europe.

The growth of the Soviet economy under Communism in the last generation has been spectacular. But this growth is

being achieved only by exacting, through police state methods, the most savage sacrifices from the Russian people.

As the leaders of the democratically inclined, under-developed nations move to industrialize, they find that this classic pattern of sacrifice has been complicated by two new economic developments:

(1) Because industrialization has become synonymous with national purposes and power, and because of widespread public knowledge of the new technology, the pressures for extremely rapid growth in Asia and Africa are now much greater than during the early period of our own industrial development.

(2) At the same time, public attention in democratically inclined nations has been focused, not on building the essential heavy industrial base, but on the rapid improvement of living standards. The people have been conditioned by the rival promises of their political leaders, by United Nations and Point Four surveys, and by Communist propaganda to judge the effectiveness of their government by its ability to deliver here and now more food, more clothing, less disease, more literacy, and improved welfare services.

The difficulties which flow from these pressures are made even more explosive by the fact that the old, conservative, stabilizing patterns of village life, based on family, religion and caste, are rapidly disintegrating under the impact of new communication techniques and new political horizons.

Thus a nation which chooses to develop its resources by democratic methods faces some formidable economic and

political obstacles: it must keep its taxes within acceptable limits; it must divert enough productive capacity to consumer goods and services to satisfy the public demand for tangible improvement in living standards; and it must still match within reasonable bounds the highly publicized industrial achievements of comparable Communist nations. If it fails to meet these obviously contradictory requirements, it will face increasing public resistance and ultimate defeat.

The government of a Communist country, on the other hand, using police-state methods, can squeeze far heavier taxes from its people, invest practically all its forced savings in heavy industry and military defense, and postpone indefinitely any substantial improvement in living standards.

Totalitarian China and democratic India offer striking examples of the practical effects of the two opposing systems in action. According to a recent report in the London Economist, China is now concentrating 22 per cent of her annual gross national product in expansion, most of it in heavy industry, transportation and power development. India, although governed by men of proven political courage, has so far been able to push the annual rate of savings available for similar development to only 7 or 8 per cent.

These figures underscore the dilemma which the government of an underdeveloped country faces when it attempts rapidly to create a modern industrial society by democratic methods. If its tax policies are too drastic, increases in consumer goods and services too unconvincing, or rate of industrial growth

too slow, it will be voted or thrown out of office. Thus without substantial foreign assistance its task, except under the most favorable circumstances, would appear to verge on the impossible.

Outside Capital Needed to Fill the Gap

This brief analysis brings into sharp focus the decisive role of an intelligent American economic assistance program for those new Asian and African nations which seek to avoid totalitarianism, i.e., to keep the internal sacrifices and strains which are an inevitable by-product of rapid economic growth, within limits acceptable to a free people; to enable democratic governments to avoid police-state methods and still approach, if not match, the Communist rate of economic growth.

The pattern of need, nation by nation, varies widely, of course. Some of the smaller underdeveloped nations, such as the Gold Coast, Iraq or Malaya, by the skillful management of large exportable supplies of cocoa, oil or rubber, are able to earn sufficient dollars and pounds sterling to meet most of their own capital import needs. Here the immediate requirements are largely for trained engineers, management experts, public health specialists, educators and other technically trained people.

But most underdeveloped, democratically inclined nations require not only technical assistance but substantial amounts of capital to finance industry, transportation and power

development, side by side with a readily visible increase in consumer goods and services, all within a tolerable domestic tax burden.

This, too, follows a classic economic pattern. We have seen that every nation that has sought to pull itself up by its economic bootstraps has been faced with internal political strains. History also shows us that every nation that has achieved our position of superior economic power has found it necessary to export capital. Before World War I, capital from Britain, the Netherlands and other European nations played a substantial role in our own industrial development.

But in our era the accustomed means of effecting this flow of capital from the developed to the less developed nations has been largely blocked. For practical political reasons the United States cannot now follow the free trade example of nineteenth century Britain which enabled foreign nations to earn large amounts of pounds sterling through sales in the British market. Direct American private investment in Asia and Africa will also remain limited as long as the profit levels which would justify such investment in new nations seething with political unrest are politically unacceptable to those nations. With the exception of the petroleum and mining industries, less than \$200 million of private American capital has been invested on these two continents since 1948.

Private investment should be encouraged with considerably more ingenuity than we have shown so far. As the industrial base of modern transportation, adequate power and heavy

industry begins to develop, political stability in Asia and Africa may grow, and then private investors will have an increasingly important role to play.

In the meantime, the chief vehicle of substantial capital export to the new nations of Asia and Africa will remain, by default, the American government. Only direct government action can enable American capital and technology to fill the gap between available local resources and the minimum development objectives which are commensurate with stable democratic government in present-day Asia and Africa.

Need for a New, More Affirmative Viewpoint

On this central question of our economic relations with the world we are still tragically bogged down in outworn concepts. A new global approach to economics will almost certainly be developed under the pressure of events in the next few years. I believe that this new approach may differ as much from our present view as Roosevelt's domestic economic program differed from that of Calvin Coolidge.

Indeed the day may soon come when our farm surpluses in today's largely hungry world will seem as strange to us in retrospect as the overloaded grocery stores of 1932 in which thousands of tons of food spoiled every day because millions of desperately needy people lacked the money to buy.

Although the subject is vast and permits no simple answers, it seems to me regrettable that both government and private agencies have thus far produced so little original

thinking. Public discussion has generally been confined to traditional channels, while our policy-makers have remained stymied by the paradox of too much wheat and cotton in a world desperately short of bread and clothing.

Even in Europe, where we hold so many advantages, our post-war efforts at economic integration have been a disappointment. The free, democratic nations are so jealous of their independence and so preoccupied with short-term advantage that even the simplest form of economic and political cooperation has been looked upon with distrust.

This is a most unhappy development, not only because it deprives the Atlantic nations of the broader opportunities that inevitably would result from a closer economic and political association, but because it prevents the nations of Western Europe from playing a more creative and affirmative role in Asia and Africa.

In the last ten years Western Europe has experienced a steady decrease in its world influence and power which has led to a steady loss of confidence in the future. Western Europe's position in tomorrow's world will largely depend on its ability to develop a fresh, realistic perspective on the new kind of global society which is gradually emerging and to bring its integrated resources to bear on the development of that society.

With their advantage of capital, experience and highly advanced industrial technology, the nations of Western Europe are still in a position to create a permanent and productive

partnership with Asia and Africa. This partnership, with the support and participation of the United States, could go far to assure not only the survival of the liberal values which spread out from Britain during the seventeenth century, but their steady expansion and ultimate acceptance in most of the world. Yet thus far the necessary imagination and dynamism has been tragically missing.

If the economic anarchy and policy vacuum which now plagues so much of the non-Soviet world continues, the most likely outcome can be foreseen: Moscow and Peking will press their own answers to the world's interrelated economic ills with a logic which may ultimately become irresistible--answers that provide an opportunity for nations not unfriendly to the Soviet Union to buy and sell within a vast, rapidly expanding, highly organized market covering three potentially rich continents.

In Stalin's day Soviet domestic and foreign policies were focused on building a Russia which would be industrially and militarily invulnerable to attack. As a result, the Soviet Union in that era appeared to most people throughout the world narrow, selfish, aggressive and destructive.

With its primary national security objective achieved, the Soviet focus is now drastically shifting. We have seen that Soviet leaders, behind an expanding, modern equipped nuclear defense, are beginning persuasively to sketch the outlines of a dynamic global economic association centered in Moscow. This association, so it is said, will provide

spectacular economic advantages "without political strings" to those who will but cooperate.

In China several thousand Soviet technicians are now at work. Many hundreds of millions of dollars worth of capital have already been made available to speed the first Chinese Five Year Plan. By 1962, the London Economist states, Chinese steel production may grow from the 1952 level of 1.5 million tons to 17 million tons. India's production, which in 1952 started at a similar point, will by then have reached only 30 per cent of China's expected total.

In the last eighteen months this new Soviet program of technical and capital assistance has been steadily expanded beyond the Communist bloc. Czechoslovakia, Poland and Hungary are now playing their own special overseas roles. Afghanistan, India, Egypt, Burma and soon other nations of South Asia, the Middle East and Africa, are coming in for increased attention.

Although some mistakes have been made, as in Burma, it would be folly to assume that this Moscow directed program in the next few years will not, generally speaking, be skillfully and vigorously administered. If this is indeed the case, the appeal of the new Soviet approach to inexperienced new nations, hungry for capital and technicians, is difficult to exaggerate.

Learning From Our Past Mistakes

If the United States in the decade following the war had mustered the imagination to extend the Marshall Plan concept to Asia, Africa and South America on a large scale,

and if she had acted with tact and understanding, the underdeveloped nations would now be bound to us by ties of mutual self-interest and common ideological aspirations powerful enough to defy any Soviet effort to disrupt them.

There were many of us who vigorously argued the need for such a policy. As early as January, 1947, I proposed that one or two per cent of our national product should be set aside for long-term loans to the underdeveloped nations. In April, 1953, shortly after Stalin's death, I suggested that Russia would now almost certainly offer capital and technicians to the underdeveloped new nations.

"A new period of ruble diplomacy," I wrote, "lies immediately ahead. A devastatingly effective Soviet version of Point Four could be put together for one-fourth of the present estimated \$8 billion annual increase in Russia's national income. The possibilities of such a program, wisely administered, are sobering to contemplate. If we continue to put our faith exclusively in military power, we will soon lose our big chance."

But the opportunity was neglected, and the warnings ignored. The promise of our own Point Four has never been fully sensed. Because almost no serious effort has been made to explain its really crucial importance, most Americans have continued to look on non-military economic aid as a short-term, do-goodish scheme of very doubtful value.

As a result, this program has received less than one per cent of the funds we have invested in military defense.

Even today, faced with new Soviet economic and political tactics which fundamentally challenge our position in much of the world, Congress and the public have been given almost no appreciation of what needs to be done. Indeed much of our inadequate foreign aid budget is now being spent on the wrong projects, in the wrong places, and for the wrong reasons.

The Marshall Plan should have taught us many lessons about method and approach which we have not yet fully taken to heart. It can fairly be said that in the immediate post-war period this program prevented Western Europe from being drawn into the Soviet political and economic orbit. It helped revive the battered economies of Western Europe and brought a high degree of political stability to the United Kingdom, the Low Countries, Scandinavia, and, through associated programs, to West Germany.

Yet the Marshall Plan fell somewhat short of the objectives set by the brilliant group of Europeans and Americans who directed it. Today one out of every four voters in France and Italy still supports the Communist Party. In France there persists a particularly dangerous lack of political unity and national purpose.

Many economists believe that the explanation of this Communist support lies in the blind opposition of right-wing groups both in Europe and America to the long postponed economic and political reforms which are essential to a stable society; and also to a stubborn insistence in these quarters on the same "trickle-down" development approach which failed

in our own country during the 1920's.

Our efforts, in any event, helped to raise European economic output substantially above pre-war levels; but for whatever reasons, many of the old economic and social injustices, the exaggerated differences between rich and poor, were left firmly entrenched to create continuing dissension and instability.

In Asian countries we also find that substantial increases in output have not always been matched by a corresponding increase in political stability. Here again our assistance programs have too often underwritten the old patterns of life with all their built-in inequities, although at a higher productive level. When we help put more food in a man's stomach, cure his malaria and teach him to read and write, without treating the basic injustices which embitter his attitudes toward society, we have often found ourselves faced, not unnaturally, with a better fed, more formidable revolutionary.

What Aid Can and Cannot Do

This practical and sometimes costly experience in Europe and Asia brings the requirements of an effective foreign aid program into clearer perspective.

In addition to creating more wealth, such a program must place heavy emphasis on the development among the workers and peasants of a healthy, cooperative attitude towards their national governments and their communities. This requires

steady progress towards three essential objectives without which political stability in Asia, Africa and South America will almost certainly fail to develop: (1) a recognizable increase in economic output; (2) a sense of widespread personal participation in the creation of this increase; (3) a public conviction that the fruits of the increase are being fairly shared, with injustices steadily lessening.

Because we have focused our efforts in Asia and Africa largely on objective number one--sheer production increases-- and because in many areas a growing percentage of the new wealth created with our assistance has been diverted into the hands of the ruling hierarchy, we now find ourselves identified in many parts of the world with the despised status quo.

American-trained students from certain Middle Eastern and South Asian countries often tell a sad but familiar story. They return from their studies in the United States excited about the prospects of working to promote democratic growth and development among their own people. But upon reaching their homelands, they find semi-feudal regimes bolstered and even kept in power by American economic assistance.

They find governments which tax the rich only a fraction of the degree to which we Americans tax ours. They find unreasonably low corporate taxes. They find scarce foreign exchange spent, not for necessities, but largely to pay for imported luxuries.

In other words, they see our economic assistance used, not to speed reform, but to postpone the need for it, and thus

to protect the power and prestige of the anti-democratic, right-wing groups which are clinging hopelessly to the past.

Grants designed to stop Communism by such narrow means must ultimately fail. By underwriting an unpopular, feudal status quo which could not conceivably survive through its own resources, American aid programs may even turn large numbers of people against us and ultimately lead them to accept Communism as the sole way to change an intolerable situation.

Half-baked, indiscriminate programs of technical assistance also have their pitfalls. Since the war a very large number of American technicians have been at work in Middle Eastern and Asian nations. Many of them are able and well-trained. Some of them have accomplished much, not only in increased production and improved training, but in demonstrating the dynamism and human qualities of a democratic society.

Yet many others have failed. They have failed because they and their families were poorly prepared, haphazardly selected, and often assigned to impossible tasks.

Even the best of our exported experts have been handicapped because they tend to bring with them a glaringly high standard of living which excites envy and even bitterness. Often they have come with an inadequate psychological preparation for the strange new situations which they are called upon to face. Even some of the ablest of them have come with a narrow faith in tractor-powered agriculture in lands where labor costs are so low that "family-powered" hand

agriculture is still more efficient.

Against a background of shortcomings, misunderstandings, and criticism, much of it totally unfair, and in the absence of a bold, persuasive presentation of its central role in this new period of competitive co-existence, it is not strange that our foreign aid program has lacked public and Congressional support.

As may be expected, many American political leaders with deep-seated isolationist backgrounds from the outset have opposed such close cooperation with people of remote and unfamiliar lands. Now some others with deep internationalist convictions have added their own special doubts. Disturbed by the bitter criticism of America in many underdeveloped nations, they have concluded that economic assistance, by awakening impoverished people to the broader possibilities of life, has resulted in fewer friends and increased unrest.

Although such defeatism is understandable in view of the confusion surrounding this complex subject, it amounts to no less than throwing the baby out with the bath water. The answer lies not in scrapping this critically important and perhaps decisive effort, but in recognizing its limitations, reappraising its true purposes, reorganizing its administration, and in making available the necessary resources.

Any lesser approach will multiply the likelihood that America will drift into the very economic and political isolationism which the leaders of the Soviet Union confidently believe lies in store for us, an enforced isolationism which

sooner or later must gravely diminish our ability to influence world affairs and ultimately, in conjunction with powerful Soviet military power, may bring about our downfall.

A New Approach to Economic Assistance

In attempting to derive practical recommendations from the foregoing principles, it may be helpful to keep in mind two separate objectives. The first is the formulation of a series of urgently needed proposals for consideration at the next session of Congress. The second is the initiation of long-range studies towards a deeper understanding of our economic and political objectives in today's world and the comprehensive and perhaps even revolutionary steps which will be required to achieve these objectives over the long haul.

Certain considerations, of course, are basic to both programs. Together they would seem to form the core of a positive plan of action in the field of international economic assistance. I shall re-state them briefly.

(1) We must clearly define the purpose of economic aid. We must know what it can accomplish; equally important, we must know what it cannot accomplish.

We have seen, for instance, that economic aid cannot buy friends or win new converts to The American Way. Nor by itself can it produce political stability.

The use of economic aid to bolster feudal governments which stubbornly refuse to undertake internal economic reforms is a blind alley. To underwrite the economies of recipient

nations in a way that enables them to neglect their responsibilities for fair taxation and effective control of foreign exchange is not only wasteful; it plays straight into the hands of Moscow.

Being human, we may hope that other people will like us and support our views. But again I must emphasize that a desire for friends, allies and approval should never be our prime motivation for assistance.

Our objective is not to win a short-term global popularity contest, but to help other nations achieve a degree of internal stability that will enable them to remain independent masters in their own houses, determined to defend their freedom against all foreign intruders.

We have seen that only with a substantial capital contribution from us can most democratically inclined underdeveloped nations close the gap between their own available resources and the production goods necessary to assure political stability.

(2) Foreign economic aid is a long-range project. Its results cannot be immediate, and we will experience only frustration and bitterness if we fall prey to premature expectations.

We are entering a potentially promising period of rapid international development based on new achievements in technology and communications. Yet in this period our position and influence will be aggressively challenged at every turn by the Soviet Union, whose economic capacity is now growing

more rapidly than our own. Under such conditions societies in which economic growth and a deep belief in human rights develop together in the balance essential to political stability will not be created cheaply or easily.

Although the extend and nature of the Soviet challenge seems clear, arguments which tie our economic assistance to the "duration of the Communist menace" dangerously oversimplify the problems which now confront us. So do proposals which would relate our assistance proportionately to the extent of the Communist danger in each country under consideration.

In Egypt we became interested in the Aswan Dam only when the Soviet Union showed interest; we abandoned our support when it was rumored that Moscow's support might not be forthcoming. Now there are rumors that Soviet second thoughts may lead to a second American reappraisal.

Leaders of the underdeveloped nations, not unnaturally, may infer from such statements and actions that the more domestic Communists they have or the more pressure they can generate from Moscow, the greater the economic assistance which may be expected from America. To foster expedient reasoning of this kind is to turn a noisy Communist minority and vague Soviet promises into valuable economic assets.

It is clear, meanwhile, that the time factor poses a practical legislative problem. Congress simply cannot lay down a precise five year program and commit itself totally in advance. Yet our long-term support for the Marshall Plan, the United Nations, the Export-Import Bank, farm support,

price programs, the Commodity Credit Administration, and the Social Security program, among others, seem to give us a series of practical precedents.

In a given year Congress could refuse appropriations; but once the general confines of a long-term program had been agreed upon, such a refusal would be unlikely unless a drastic change occurred in international relations.

(3) The volume of our aid should be adequate to the demands of the new world situation. To trim our commitments below the actual sums required to meet the most immediate and crucial needs will be the utmost folly.

We can no longer ignore the fact that a sizeable and dangerously explosive gap exists, and will continue to exist, between what most of the new democratically inclined nations can save and spend on internal development and what the Communist nations can save and spend.

Here is the very heart of the problem. Unless this critically important capital gap is reasonably well closed, the development of politically viable non-Communist nations in Asia and Africa, able and willing to maintain their independence, is most unlikely, and the consequences are sobering indeed.

It would be wrong, however, to assume that a vast or incalculable sum of money will be required to fill this capital gap. An able study of the problem undertaken by the Center for International Studies at the Massachusetts Institute of Technology concluded that if the money were

wisely spent, an annual American loan expenditure of \$2 billion with the addition of approximately half that amount from other Western sources, would be sufficient to meet the capital needs of the new nations of Africa and Asia as well as our more economically advanced neighbors in South America.

This is less than half of the total foreign aid request, military and economic, which the President sent to Congress in the winter of 1956. The M.I.T. study emphasized that this estimate is valid only if such funds are used to encourage sound, long-range planning by the recipient nations.

(4) The bulk of our aid should take the form of long-term loans, largely payable in local currency and all of it at low rates of interest.

We should not delude ourselves on the economic soundness of such loans, judged against traditional banking standards. With the likely increase in prices, a long-term loan will steadily decrease in relative value. As the gross national product of the recipient government increases, the indebtedness incurred will become less and less of a burden. Yet the increased sense of self-respect which is engendered by such loans is an important compensating factor.

Some of our aid will undoubtedly take the form of technical assistance, commodity grants, and commodity loans whose nature will vary considerably among nations. Our agricultural surpluses in a world that cries for food and cloth can and should be turned into a major economic asset. Perhaps

a World Commodity Bank will eventually provide the mechanism to facilitate their full use.

The development of such a bank is admittedly a long-range project. In the meantime, the sale of our commodities abroad should be carefully and responsibly planned in order not to upset markets and create more difficulties than we solve.

The Mechanics of a New Aid Program

A. The following comments pertain to the structure and administration of the aid program which I believe should be considered at the next session of Congress.

(1) The initial urgent problem is to organize our economic advantages--our capital, our technological know-how, and our industrial management experience--and effectively bring them to bear upon the needs of the non-Communist underdeveloped nations.

Consideration should be given to a five year capital fund on which qualified underdeveloped countries could draw loans in line with their own requirements.

(2) The matter of technical assistance within such a program is complex. Our present efforts in this direction should be immediately reviewed. I am inclined to believe that we can administer such assistance more efficiently with fewer men, but of a generally higher standard of experience and training.

Yet the recipient nations vary greatly in their needs. Ethiopia, for instance, requires many well-oriented but

relatively "low-priced" technicians, while India, in a far more advanced stage of development, requires a sizeable number of the ablest of top-level people.

I believe that nations receiving loans should be encouraged to spend a portion of these loans on management contracts with relevant American, West European or Japanese firms. For a steel mill, for instance, a South Asian nation might negotiate with Republic Steel; for a chemical factory with Monsanto Chemical; for a fertilizer plant with I.G. Farben.

The recipient nation could send its personnel to such firms for management training. The contracted firm would take responsibility for planning and building the factory, training its personnel, and operating it until its own indigenous managers are capable of taking over.

The central role of American business in such an overseas development program deserves urgent study. One of the principal techniques of economic assistance should be the export to Asia, Africa and South America of first-rate American and West European technological and managerial knowledge. This inevitably places a responsibility on American business.

It will not be easy to persuade American firms to accept this responsibility on the terms which will ordinarily be offered. Yet American industry has many leaders who are ready to look constructively beyond today's dividends to tomorrow's survival.

It is here that we particularly need White House conviction and initiative to convey to business leaders the sense

of urgency which is now tragically missing. We must persuade them of the existence of a new kind of frontier for American business in Asia, Africa and South America, where the stakes are high and their responsibilities real, and perhaps even decisive.

High short-range profits we cannot promise them. But their participation in the overseas development plan will help create the stable political conditions which ultimately will open up expanding new markets all over the world. Indeed, the success of this cooperative venture may go far towards guaranteeing the survival of the domestic and international economic system on which our progress and security so largely depend.

Understanding of this kind is easily communicated in a time of clearly evident national emergency. American industry was able to capture a sense of urgency during the war, and our economic system rallied spectacularly to the challenge. In time of peace business also responded vigorously to the post-war requirements of Marshall Plan aid. A similar sense of urgency in Asia, Africa and South America must be communicated again and soon.

(3) We should attach reasonable economic (not political) conditions to the manner in which our assistance is used.

The Soviet Union is said to have achieved a ten strike in Asia and Africa because it has been willing to give economic assistance willy-nilly, with no questions asked. We have liked to picture ourselves as a nation which makes sure that

its own foreign aid contribution is well spent.

There is little reality to this alleged contrast. The U.S.S.R. has applied its economic aid with considerable skill and financial canniness. By and large, it has selected projects carefully with a keen regard not only for their political impact but for their economic results.

Our record has been uneven. In some countries we have wasted substantial sums in an effort to avoid upsetting questionable, carping political allies whose principal devotion is to the status quo. In others, such as India, we have spent our money more wisely.

A precise, pat rule of operation is impossible. But through tactful pressure I believe we can encourage, in almost every situation, steady progress by recipient nations towards the equitable redistribution of land, the alleviation of economic injustice, a more democratic tax system, and the like. I must emphasize again that without this essential human progress, pure production gains will almost certainly create more political troubles than they solve.

Thus we should consistently seek to associate ourselves with the fundamental economic reforms which are a prerequisite to the creation of a free society where democratic political processes can flourish. If we succeed in so doing, we will see our prestige and influence in the underdeveloped continents steadily grow.

The evolution of our aid program in the Philippines, starting with the Bell Report in 1951, may serve as a model

of economic aid wisely used to achieve the internal stability that can only come as a result of economic and political reform.

(4) Finally, there remains the question of economic assistance channeled through the United Nations. It has been persuasively argued that we should distribute all our economic assistance through the U.N. and its proposed auxiliary fund, SUNFED. This has been proposed, not only to call the Soviet bluff on economic aid, but because aid so given will be far more acceptable to the recipient nations.

A proposal for a major joint international development program free of political strings with a challenge to the U.S.S.R. to match our investment in this program offers obvious advantages, particularly if other democratic nations will vigorously support it with their own funds.

If Russia responds favorably, the cause of both peace and economic development will be immeasurably advanced. If Russia refuses participation, she will have revealed the hollowness of her pleas for economic cooperation and global understanding.

It is questionable, though, whether Congress, even with the ablest of leadership and persuasion, would be willing to approve such a project with really adequate financing in 1957. It is even more questionable whether it would have the whole-hearted support of our Western allies.

There is the added counter-argument that U.N. aid would be less subject to the economic stipulations without which such aid in many parts of Asia and Africa will be largely wasted.

Nonetheless, the United Nations might well provide an effective channel for development funds through the establishment of an international loan agency as a subsidiary of the World Bank. Another potential distributing agency exists in the facilities of the Colombo Plan organization.

It is essential, however, that arguments over the sources of funds and their administration should not be used to obscure the need for prompt, vigorous, and really adequate action.

B. In conjunction with the foregoing specific proposals for immediate consideration, I believe that a series of careful studies must be undertaken to establish a solid, continuing base for long-range economic programs. Among other possibilities, we should initiate projects to investigate the possibilities of a world commodity bank, the relation of raw materials to manufactured goods in the international market, and the creation of guaranteed long-range markets at established prices for basic commodities.

The Soviet Union, we may be sure, will have many appealing things to say on these questions during the next few years.

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It is obvious that no substantial portion of the foregoing program can be put into operation without enlightened, imaginative, and really strong national leadership.

A coherent and comprehensive economic development program

for Asia, Africa and South America will involve a departure into new realms of thinking and new areas of activity. It will require the kind of imagination which burst upon this country in 1933. Without that release of creative energy we would have remained caught in a seemingly "insoluble" domestic economic dilemma. Today our "insoluble" economic dilemma is international in scope.

As in 1933, this dilemma will prove to be responsive only to imaginative analyses and new approaches. As in 1933, its solution will demand dynamic leadership at the executive level of our government, a comprehensive program of public education that only the President can undertake, and bipartisan support in Congress which will require not simply reluctant, last-minute consultation on particularly explosive issues, but day-to-day bipartisan policy-making and administration.

In competitive coexistence the victories will not necessarily go to the nation with the highest standard of living, the largest gross national product, the most automobiles, or the most accurate guided missiles. Instead the advantage may lie with that nation or group of nations which, behind a persuasive shield of military power, can effectively bring to bear on the decisive uncommitted and underdeveloped two-thirds of the world the largest concentrations of capital and the most impressive technicians. Judged by this standard, the Soviet Union is in a powerful position, while we now face

serious handicaps in administrative flexibility, political understanding and technical manpower.

The immediate stakes may be America's ability to influence the course of events in Asia, Africa and South America and to maintain our expanding economic prosperity and military strength. For the longer haul, I believe the stakes may be no less than the course of civilization itself in the century ahead.

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It is impossible to deal comprehensively with the problem of foreign aid within the confines of a memorandum. I am aware of this limitation. I am aware, too, of the extensive possibilities for legitimate disagreement as to the best approach to the problem. But I am convinced that there can be no disagreement as to the size of the problem we face.

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